



**9 March 2009**

## **Cut the OCR to 2.5%**

The New Zealand Manufacturers and Exporters Association (NZMEA) is calling for the Reserve Bank to cut the Official Cash Rate (OCR) 100 basis points on Thursday. While the Reserve Bank of Australia (RBA) kept its rate at 3.25 percent last week, fast fading demand justifies decisive action.

NZMEA Chief Executive John Walley says, "In slowing growth terms, Australia is at least six months behind New Zealand, and in any case the RBA might come to regret this hesitation. The New Zealand economy was slowing even before the start of the global financial crisis, so what is to be gained by waiting?"

"Our latest survey results reported a seven percent rise in year on year export sales in January 2009 with a 5% fall in staff numbers. This suggests that the sales increase was caused by exchange rate movements, rather than sales volume. It is important that our exporters get all the margin benefit that they can, right now, before markets slow even further. Better returns earlier will give greater support for exporting firms through the hard times to come."

"There is no reason to delay; at this point in time the only function of the OCR is to balance our external deficit."

"Our monetary policy attracted too much offshore money in the good times, increasing the trade deficit, so we are now reliant on the OCR to attract sufficient foreign credit. For this reason we probably can't get down to the interest rate levels available elsewhere; the Bank of England is at 1%, the European Central Bank is at 1.5% and the United States Federal Reserve is between 0 and 0.25%; but we can get closer and have a sufficient differential even at 2.5%."

"Longer term, if we want to see exports grow we will need to separate the mechanisms that control domestic inflation and fund our external deficit, but for now there is no reason to deny better margins to our exporters."